Hasbro Second Quarter 2013
Financial Results Conference Call Management Remarks
July 22, 2013

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone.

Our second quarter earnings release was issued this morning and is available on our website. Additionally, presentation slides containing information covered in today's earnings release and call are also available on our site. The press release and presentation include information regarding Non-GAAP financial measures included in today's call. Please note that whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

This morning, Brian Goldner, Hasbro's President and Chief Executive Officer, and Deb Thomas, Hasbro's Chief Financial Officer, will review our financial results and discuss important factors impacting our performance. Following their prepared remarks, Brian and Deb will be happy to field your questions.

Before we begin, please note that during this call and the question and answer session that follows, members of Hasbro management may make forward-looking statements concerning management's expectations, goals, objectives and similar matters. These forward-looking statements may include comments concerning our product and entertainment plans, anticipated product performance, business opportunities, plans and strategies, costs and cost savings initiatives, financial goals and expectations for our future financial performance.

There are many factors that could cause actual results or events to differ materially from the anticipated results or other expectations expressed in these forward-looking statements.

Some of those factors are set forth in our annual report on form 10-K, our most recent 10-Q, in today's press release and in our other public disclosures. You should review such factors together with any forward looking statements made on today’s call.

We undertake no obligation to update any forward looking statements made today to reflect events or circumstances occurring after the date of this call.

With that said, now, I would like to introduce Brian Goldner.

Brian Goldner, Hasbro President and CEO:

Thank you, Debbie.

Good morning everyone and thank you for joining us today.

We are driving our global brand building efforts, across our brand blueprint, through toy and game innovation, digital media, licensing and entertainment, to deliver long-term profitable growth for Hasbro and our shareholders. While we are up against challenging comparisons in the Boys arena this year, we have seen growth in our other categories and believe that these efforts position Hasbro to successfully execute our strategy and leverage our brands and our strategic investments in both the near term and in the years to come.

Our second quarter performance reflected the difficult comparisons in the Boys category, while at the same time highlighted areas of growth and opportunity for Hasbro.

- Second quarter revenues of $766 million declined 6%, while year-to-date revenues declined 2%.
- Second quarter operating profit, excluding charges, declined 11% reflecting the lower level of revenues in the quarter. However, year-to-date operating profit was up 3%, absent charges.
- We are focusing on our most important initiatives while right sizing our cost base and organization. This focus is having positive

results: five of our seven Franchise Brands grew and three of our four product categories were up, both in the second quarter and year-to-date. We have extraordinary people, doing outstanding brand-building globally around these high priority initiatives;

- Geographically, our emerging markets investments continue to pay off. In the second quarter, these markets grew 24% behind gains in many countries including Russia, China and Brazil.
- Supported by our investment in innovation and a focus on our top initiatives, revenues in our Girls and Games categories grew 43% and 19%, respectively this quarter. Preschool revenues gained 4% in the quarter.
- Content is clearly driving our brands. Our investment in Hasbro Studios is powering our franchise brands including My Little Pony, Transformers and Transformers Rescue Bots, and most recently Littlest Pet Shop. Our partner brands - Marvel, Star Wars, and Sesame Street - are also leveraging global entertainment to build franchises now and into the future.
- Supporting future growth in Games and the convergence of digital and analog play, we invested in our mobile gaming innovation portfolio with the recent acquisition of 70% of Backflip Studios. With established brands including DRAGONVALE and PAPER TOSS, Backflip has a track record of sustained performance, including profitability; strong development capabilities; and games

which address an end consumer similar to that of Hasbro brands. We are really excited to begin working with Julian Farrior, Dale Thoms and the great team in Boulder and look forward to developing great games – on their brands and Hasbro brands.

- Additionally, we also recently signed a new multi-year agreement with EA that focuses on eight core Hasbro game brands for mobile gaming. Both of these steps ensure consumers can experience our brands anytime and anywhere.
- Importantly over the next several years, we are heading into a period of significant boys entertainment. We are developing comprehensive and innovative lines behind both film and television, including *TRANSFORMERS 4* in 2014 and several Disney entertainment initiatives for MARVEL and STAR WARS in 2014, 2015 and beyond.

For the 2013 holiday season we are well positioned, with new initiatives across product categories and geographies. Retailers have shared their excitement with us for Hasbro's holiday offerings and we continue to partner closely to manage inventory and ensure the right amount of product is at retail at the right time. At the end of the second quarter, inventory at our top four U.S. retailers was of good quality and down versus last year.

As I mentioned, revenues in three of our four product categories - Girls, Games and Preschool - grew in the second quarter, marking three straight quarters of growth for both Girls and Games. Innovative and immersive brand experiences contributed to the continued strong growth in MY LITTLE PONY, MAGIC: THE GATHERING and PLAY-DOH as well as in a number of other brands, including FURBY, TWISTER, JENGA, and TRANSFORMERS RESCUE BOTS.

For the holidays, we are launching major new initiatives in each of these categories to continue their momentum. While I can't touch on all the initiatives across our brands, we hope you will join us in Providence on September 10th for our investor day, where we will talk in more detail about our brand initiatives. Today, I will highlight a few important fall initiatives and launches which should help continue the momentum in these categories.

For Girls, NERF REBELLE will be on shelf in the third quarter. We have been cultivating the NERF REBELLE brand for more than two years and have talked to thousands of girls about what they would expect from a sports action line. Retailers and girls alike are excited about this all new offering.

Additionally for Girls, we continue to leverage the globally popular *My Little Pony Friendship is Magic* television program with new products launching in markets around the world. We are also building on the momentum of MY LITTLE PONY with the launch of *My Little Pony Equestria Girls*, a new full-length feature film introducing a whole new dimension into the world of MY LITTLE PONY. The film launched at the LA Film Festival on June 16th. It then rolled out to over 250 theaters in the U.S. and Canada. Based on positive audience reaction, Screen Vision added more showings. In mid-August, the *My Little Pony Equestria Girls* movie is planned to roll out in over 20 different countries and will be available on DVD. Additionally, it will air on The Hub Network on September 1. Product supporting the film will be on shelf beginning in August and is highlighted by a line of fashion dolls based on the characters in the film.

Also for Girls, following a tremendous launch in 2012, FURBY is rolling out in 12 languages and across all regions globally in 2013. This fall, we are unveiling FURBY BOOM in English speaking markets. Featuring all the ‘magic’ and personality of its predecessor plus twice the content, the new FURBY BOOM creature combines physical and digital play.

Within Preschool, we have several new launches for our Franchise and Partner Brands including BIG HUGS ELMO in SESAME STREET, innovative new technology in TRANSFORMERS RESCUE BOTS BEAM BOX, and new play sets featuring our all new PLAY-DOH PLUS compound.

Our Games launches will showcase new innovation and game play this fall. MONOPOLY EMPIRE, TWISTER DANCE RAVE, BOP-IT TETRIS and a new Preschool game - CHEEKY MONKEY, as well as the launch of our value game initiative which offers classic games at lower price points, are all delivering on compelling on- and off-the-board game play.

Moving to Boys, as I mentioned, the category had difficult comparisons with 2012, which included two very strong Marvel entertainment initiatives - *The Avengers* and *The Amazing Spider-Man* – and higher sales of BEYBLADE.

As we look ahead to the next several years, we are developing and supporting significant Boys entertainment in both television and film distributed across all screens based on Hasbro and partner brands.

In 2014, the fourth film in the TRANSFORMERS franchise is scheduled to be in theatres and, for future years, we continue to develop new Hasbro brands including STRETCH ARMSTRONG and MICRONAUTS, with our studio partners.

Marvel has several films planned for 2014, including *Captain America: The Winter Solider*, *The Amazing Spider-Man 2* and an all new franchise *Guardians of the Galaxy* and in 2015 the second *Avengers* film is anticipated. Importantly, Lucasfilm is unveiling all new *Star Wars* television programming in 2014 and is scheduled to release *Star Wars: Episode VII* in 2015.

In the near term, for the 2013 holiday season, we have new Boys initiatives inspired by our extensive global consumer research including TRANSFORMERS CONSTRUCT-BOTS; an all new KRE-O initiative, KRE-O CITYVILLE INVASION featuring our new Sonic Motion Technology; and new NERF ELITE products, including the NERF NSTRIKE ELITE MEGA Series.

Over the past several years, we have invested in developing Hasbro brands holistically – across consumer groups, geographies and immersive experiences. Our efforts are enabling us to build a more robust and diverse portfolio around our brands.

Instrumental in accomplishing this has been the development of all elements of our brand blueprint – toy and game innovation; digital media; lifestyle licensing and immersive entertainment experiences.

Innovation and new technology development is central to this strategy and increasingly the integration of digital and analog play is an essential element of these efforts. FURBY, MAGIC: THE GATHERING and even MONOPOLY, are effectively delivering against the promise of integrated play.

Last week we elevated our efforts in this space with the unveiling of TELEPODS, an all new mobile gaming platform. TELEPODS uses innovative new technology to allow kids to play in two ways: in the physical space and through full and unprecedented integration into top-tier mobile apps. The TELEPODS play experience will first be available in a line released this August based on and fully integrated into the highly anticipated new game app ANGRY BIRDS STAR WARS II, from Rovio Entertainment and Lucasfilm. We are very excited by the potential of this platform in the mobile space and will expand the Telepods experience to other Hasbro categories and brands.

We have also continued developing our brand blueprint by expanding our digital gaming capabilities through a majority investment in Backflip Studios. The addition of in-house digital gaming capabilities allows us to more fully participate in the value being created by our brands digitally. Our expectation is that the addition of Backflip will be neutral to slightly accretive to our financial results in 2013.

We also continue to have tremendous partnerships in the broader digital gaming space with EA, Activision, Gameloft, DeNA and others. Through the combination of in house and partner resources, Hasbro brands are being developed across all gaming platforms for markets around the world so that consumers can play our brands anytime and anywhere.

Moving to immersive entertainment experiences within our brand blueprint, our television strategy is enabling us to reach audiences across all screens globally. Hasbro Studios has received 7 Daytime Emmy Awards for its programming, which can be experienced in over 170 markets around the world on television, on all the major digital platforms and on DVD. Recent developments include: *Transformers Prime* now airing on national television in China after an almost 30 year absence and we have begun to roll out *Littlest Pet Shop* internationally – where it is now airing in the US, Canada, UK and

France with distribution planned in all regions by year end. *My Little Pony Friendship is Magic*, *Transformers Prime Beast Hunters*, *Rescue Bots* and *Pound Puppies* remain highly rated shows globally.

Another element of our global television strategy is our joint ownership of The Hub Network in the U.S, which continues to make significant year-to-year strides with kids and adults. The second quarter represented the seventh consecutive quarter of growth among its key demographics. In June, the Hub Network received 7 Daytime Emmy Awards – tying for the most awards among kids networks. The Hub Network is well positioned for success with distribution now in over 72 million homes, quality, award winning programming and a recent decision to further connect its advertising efforts with the reach and expertise of Discovery Communications. The network now has a plan to achieve pre-tax profitability in 2014.

When you combine our Hasbro branded entertainment with that of our partners for both television and film, we have a tremendous entertainment slate planned for several years to come.

In closing, while we are slightly more than half way through the calendar year, most of our selling year is still to come. We are entering the important second half of the year and holiday season in a good position – with new innovation across categories which is supported by global integrated marketing campaigns and a strong presence and partnership with our retailers.

Over the longer-term, we remain strategically committed to executing against our brand blueprint as we work to unlock the full potential of our brands globally and drive the long-term profitable growth of Hasbro.

Now, I would like to turn the call over to Deb.

Deb Thomas, Hasbro CFO

Good morning everyone.

While our investments in innovation are reflected in the second quarter growth of our Girls, Games and Preschool categories, this growth was not sufficient to offset the difficult comparison in the Boys category that Brian spoke to. We are; however, in a strong financial position and have innovative brand initiatives across categories and geographies as we enter the important second half of the year. We remain focused on profitably growing our business over the longer-term through the successful execution of our brand blueprint. This focus is evident in our performance so far this year. Specifically:

- Operating profit is up 3% year-to-date, excluding restructuring charges, despite a 2% decline in revenues over the same period;
- Our cost savings initiative and savings targets remain on track;
- Our cash flow and balance sheet are strong. We generated $632 million of operating cash flow over the past twelve months and we ended the quarter with more cash and lower inventories than a year ago; and
- We continue to strategically invest in our business. Early in the third quarter we acquired a majority interest in the successful, innovative and profitable Backflip Studios thereby expanding our

capabilities and participation in digital gaming, one of the key elements of our global brand blueprint.

In both the U.S. & Canada and International segments, the Games, Girls and Preschool categories grew in the quarter. Globally, this growth was 43%, 19% and 4% respectively. This growth, however, did not offset the decline in Boys revenues, globally or in either segment.

Additionally, in the second quarter of last year we entered into a multi-year streaming distribution deal for Hasbro Studios television programming. As we said at that time, this revenue and related operating profit will continue to be part of our programming sales mix but it is “lumpy” and inconsistent by quarter. This made for difficult comparisons in the Entertainment & Licensing segment on both the top and bottom line in the second quarter.

As a result of both items, second quarter revenues declined 6% and operating profit, excluding $2.5 million of pre-tax partial pension settlement charges, declined 11%.

The $2.5 million of pre-tax partial pension settlement charges are associated with our restructuring activities. Consistent with the potential $10 million dollar pension settlement charges we discussed in the first quarter, we may potentially have up to an incremental $8 million in additional pension settlement charges in the remainder of the year. The ultimate amount depends solely on whether or not participants request a lump sum payout.

We did not have any other additional restructuring charges in the second quarter, but continue to expect full year charges of $30 to $35 million. We recorded $28.9 million of those charges in the first quarter.

Our full year savings target remains to generate gross savings in the range of $45 to $48 million for the year and net savings of $13 to $15 million for the full year before the pension charges. We continue to target $100 million of cost reductions by 2015.

The following review of the quarter excludes pension and restructuring charges. A full break down of these charges by segment and by line item on the income statement was included in today's earnings release and slide presentation.

Looking at our segment results for the quarter:

The U.S. and Canada segment net revenues decreased 4%. As I mentioned, growth in the Games, Girls and Preschool categories was more than offset by a decline in the Boys category.

The U.S. and Canada segment reported a 3% decline in operating profit but an increase in operating profit margin to 15.2% from 15.0% last year. The margin improvement is primarily due to a favorable mix of revenues, including continued growth in MAGIC: THE GATHERING.

In the International segment, revenues declined 6%. Foreign exchange had a favorable $1.2 million or 0.3% impact on the quarter. Emerging markets continued to post good gains, growing 24% in the quarter. However, economic conditions and difficult comparisons, particularly in the Boys category in developed economies, more than offset growth in emerging markets.

As in the U.S. & Canada segment, the Games, Girls and Preschool categories all increased internationally but did not offset the decline in the Boys category.

International Segment operating profit margin declined to 4.3% in 2013 compared to 8.3% in 2012. The margin decline reflected the lower revenue level and the timing of certain expenses in the quarter. The margin impact of the revenue decline in the International Segment is greater in the first half of the year as overheads are generally incurred ratably throughout the year, while the majority of segment revenues and profits occur in the second half of the year.

The Entertainment and Licensing segment net revenues declined 18% primarily on lower television programming revenues as we anniversary the multi-year streaming agreement signed in the second quarter of 2012.

As a result, operating profit in the segment declined 55% on the lower revenues.

Looking at our overall expenses, cost of sales as a percentage of revenue increased in the quarter. This increase reflected lower sales of entertainment-based products, such as MARVEL and BEYBLADE, which generally carry a higher gross margin. This increase was more than offset by a decline in royalties in the quarter.

Lower product development and advertising expense were partially offset by higher SD&A, which included higher compensation and depreciation. Excluding restructuring, SD&A is down slightly over the first six months from a year ago.

Before I move on in the quarter review, I wanted to speak briefly about the impact of the acquisition of Backflip on our financials. As Brian mentioned, for 2013 we anticipate it to be neutral to adding at most a few cents to EPS.

Beginning in the third quarter, we will be consolidating the results of Backflip into our P&L. From a segment standpoint, 100% of Backflip's revenue and expenses will be in the Entertainment & Licensing segment. In respect to product categories, we anticipate Backflip revenues will be classified in Games, similar to our other digital gaming revenues.

On our P&L, there will be an adjustment made after net income to reflect net income and earnings per share attributable to Hasbro, Inc.

and net income attributable to the 30% non-controlling interest share in Backflip.

Overall the impact to our individual expense line items is expected to be immaterial. However, intangible amortization will increase. We are performing a more thorough valuation with respect to intangibles and their amortization, and will be in a better position to discuss this impact prior to our third quarter earnings announcement.

Turning back to our quarterly results below operating profit for the second quarter:

Total non-operating expense decreased $3.6 million. For the second quarter 2013, our 50% share in the Hub Network was a gain of $131,000 compared to a loss of $2.4 million a year ago. As we stated previously, we expect the contribution from the Hub Network in 2013 to be similar to 2012, and as Brian stated the Hub Network has a plan to achieve pre-tax profitability in 2014.

Our underlying tax rate for the second quarter 2013 was 27.4% compared to an underlying tax rate of 26.8% in the second quarter 2012 and 27.0% for the full year 2012. The slightly higher rate reflects a higher mix of profits from the U.S. and Canada segment. We expect our underlying rate for the full year 2013 to be approximately 26.5% to 27%.

For the quarter, average diluted shares were 132.0 million compared to 132.1 million shares last year. Diluted earnings per share, absent pension charges, were $0.29 versus $0.33 in 2012.

Now let's turn to the balance sheet:

Our business continues to generate strong cash flows from operations. During the quarter, we generated $298.1 million of operating cash flow. For the trailing twelve months, operating cash flow was $632.2 million. At quarter end, cash totaled $1.0 billion up $242.4 million from 2012.

After strategic investments in our business, we've continued to return cash to our shareholders through our dividend and buyback programs. Our next dividend payment is scheduled for August 15th.

During the second quarter 2013, we repurchased approximately 771,000 shares of common stock at a total cost of $35.4 million and an average price of $45.84 per share. At quarter end, the Company had repurchased a total of 1.29 million shares of common stock year-to-date and $71.8 million remained available in the current share repurchase authorization.

Early in the third quarter, we paid $112 million for the acquisition of 70% of Backflip Studios. This acquisition was funded through short-term borrowings.

Receivables at quarter end were down 2% or $11M and DSOs were 75 days versus 72 days last year. The increase in DSO is primarily due to the growth in our markets with longer payment terms, such as Brazil, as well as receivables arising from the placement of our television programming outside of the Hub Network. The quality of our receivables remains strong.

Inventories declined $56.9 million versus last year. Inventories declined in the U.S., Canada and Europe but increased, albeit to a lesser extent, in emerging markets and at our Wizards of the Coast subsidiary supporting growth in those businesses. Overall, at Hasbro and at retail, our inventory remains of good quality.

The focus of our team remains on delivering profitable long-term growth while driving innovation across our key brand initiatives and successfully executing our multi-year cost savings initiative. In the second half of 2013, we are supporting our innovative product offerings with strong, integrated marketing campaigns globally while executing our global brand blueprint for long-term growth in the business.

Now, I would like to turn the call back to Brian.

Brian Goldner:

Thank you Deb.

Before we open the call to questions I want to take a minute and highlight another announcement we made this morning. After years of successful partnership with Disney, Marvel and Lucasfilm, we are pleased to have expanded our relationship with Disney for these great brand franchises. Now, through 2020, we have the rights to develop toys and games for both the Marvel and Star Wars franchises including all television and film content during that period. We are very excited about entering the next stage of our relationship with Disney as we collaborate on amazing play experiences for kids and fans around the world.

Now, Deb and I are happy to take your questions.